

NCUA News

BOARD ACTIONS - NOVEMBER 18, 1999

NCUA's FY 2000 Budget Approved

The NCUA Board approved a \$135 million budget for 2000 based on three major agency objectives.

- Continue efforts began last year to improve the recruitment and retention of NCUA examiner staff by addressing pay comparability, updated technology, quality of life, and technological issues.
- Focus the agency's ongoing programs for providing one-on-one assistance to small credit unions facing chronic operating challenges, prompt corrective action issues, and service barriers.
- Develop the appropriate infrastructures to meet the challenges identified as part of NCUA's strategic planning process.

The NCUA 2000 budget increase is 10.64 percent over 1999, smaller than the 11.6 percent budget increase between 1998 and 1999. The most significant material changes in the 2000 budget result from:

- A 9 percent salary increase for employees is comprised of a 4.25 percent comparability increase effective January 2, 2000, and a 4.75 percent merit increase, with a 2.25 percent floor. The merit increase becomes effective in March.
- New laptop computers for all staff;
- Regional conferences and AIRES training;
- Technical training for management, non-supervisory staff, and SSPs; and

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actually declined 9.5 percent while first mortgage adjusted rate loans grew 6.3 percent. Other fixed-rate real estate loans increased 5.3 percent and home equity lines of credit gained 8.8 percent. At \$30.7 billion, short-term real estate loans (scheduled to reprice, refinance or mature within 3 years) comprise a significant portion of the total \$87.3 billion in real estate loans in the third quarter of 1999.

Large credit unions posted the following growth between January 1 and September 30, 1999:

- Assets increased 5.3 percent to \$316.5 billion;
- Loans increased 8.5 percent to \$206.6 billion;
- Shares increased 5.1 percent to \$276.5 billion;
- Investments declined 8.1 percent to \$86.1 billion;
- Equity increased 2.2 percent to \$33.4 billion;
- Delinquent loans decreased 8.7 percent or \$120 million; and

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Large Credit Unions Post Excellent 3rd Quarter Results

The nation's 1,448 federally insured credit unions with assets over \$50 million posted a 8.5 percent increase in loans and a 5.1 percent increase in savings between January and September 1999, according to the latest *Call Report* data. Credit unions under \$50 million do not submit quarterly reports.

During the third quarter, the three major loan categories — new auto, used auto, and first mortgage real estate loans

— each grew 4.1 percent at large credit unions while other types of real estate loans grew 4.7 percent. From January to September 1999 new auto loans gained 6.5 percent, used auto loans grew 11.7 percent, first mortgage loans grew 14.1 percent, and other real estate loans grew 7.5 percent.

Taking a closer look at the amount of real estate loans granted during the third quarter, first mortgage fixed-rate loans

NCUA and state supervisory authorities will be contacting every federally insured credit union in the country between Jan. 1 and 3 to verify operating conditions.

In the unlikely event an abnormality occurs, please alert your NCUA examiner immediately so assistance can be provided as quickly as possible.

News Briefs

Member Service Survey — In the spring, NCUA will be asking federal credit union CEOs to complete a brief survey about serving low-income members.

MBL Treasury Survey — The Treasury Department is asking select credit unions to complete a member business loan survey in order to comply with a Credit Union Membership Access Act requirement. The act stipulates that Treasury provide Congress with a report on member business lending at federally insured credit unions.

Supervisory Committee Guide Reissued — Final changes to a new *Supervisory Committee Guide* are underway. Release is expected this month.

Internet Privacy Survey — NCUA is surveying the privacy disclosures on federal credit union web sites. The focus of the survey is interactive web sites, the data credit unions collect, how the data is used, and the disclosures provided to members.

CLF Y2K Procedures — The Central Liquidity Facility has mailed a circular

with Y2K lending procedures to its agent members and regular members. Special expedited procedures are in place for the time frame surrounding the Year 2000 date change.

CLF Income — Investment earnings in October totaled \$4.11 million, which equals an annual yield of 5.40 percent for the month.

Credit Union Failures — Through October, 16 credit unions failed during 1999. Eleven were involuntary liquidations and five merged with assistance. Six of the involuntary liquidations were purchased and assumed. The cost of failures through October was \$6.8 million.

NCUSIF Dividends — October 15, 1999, \$88.4 million was returned to federally insured credit unions. 9,905 dividend payments were made electronically and 960 checks were issued.

Upcoming Board Actions Expected

- Secondary Capital, Part 701.34 — A final rule clarifying that interest on secondary capital accounts may be paid into a separate account and made available to investors.
- Lending, Part 701 — The comment period ended in November on this proposal to amend the lending regulation to allow federal credit unions to honor overdrafts.
- Corporate Credit Unions, Part 704 — The comment period ended in November for an advance notice of proposed rulemaking addressing various issues.
- Regulatory Relief — The final third of the continuous project to modernize NCUA regulations began in August 1999, and the Office of General Counsel is expected to provide a final report in December with recommendations for regulatory review projects for 2000.

General Counsel Opinion Letters

The NCUA General Counsel's Office issues opinion letters interpreting agency regulations and policies in response to questions from the credit union community. The summary of recent opinion letters that NCUA addressed follows. A copy of the letters can be secured from PACA, 1775 Duke Street, Alex., VA 22314. All NCUA opinion letters appear on the agency web site at www.ncua.gov/ref/opinion_letters.

99-0847 — *Conflict of Interest and Section 701.21 (c)(8)* — A federal credit union official or employee, including a board member who is an attorney, is not permitted to perform legal work and be compensated in connection with loans made by the credit union.

99-0921 — *Investments in Obligations of State and Political Subdivisions* — FCUs can invest in obligations of any state or political subdivision as long as the investment is no more than 10 percent of unimpaired capital and surplus, which generally equals 10 percent of the federal credit union's shares plus undivided

earnings. The 10 percent limitation does not apply to general obligations of state or political subdivisions.

99-0621 — *Health Insurance for Board Members* — An FCU may provide officials with reasonable health insurance coverage either by directly purchasing coverage or by reimbursing official's actual coverage costs provided the reimbursement does not amount to compensation, which violates NCUA regulations.



Alex., Va., Nov. 15, 1999, Board Member Dennis Dollar meets with Carol Sargeant, Director for Banking Supervision in the United Kingdom. Ms. Sargeant visited Mr. Dollar to discuss credit union supervision and deposit insurance.

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

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BOARD ACTIONS NOVEMBER 18, 1999

- An increased emphasis on employee incentives.

Survey Will Be Issued on Service to Low-Income Members

The NCUA Board approved, by a two to one vote, issuing an 11-question survey asking federal credit unions to voluntarily respond to questions about their service to low-income members. In the spring, with OMB approval, the survey will be sent to credit union CEOs and placed on NCUA's web site.

The NCUA Board initially tabled, for lack of a second, Chairman D'Amours' proposal to make completion of the survey mandatory for all federally insured credit unions.

Advance Notice of Proposed Rulemaking Addresses Incidental Powers and Group Purchasing

To clarify Part 721, the insurance and group purchasing activities regulation, the NCUA Board issued, for a 90-day comment period, an advanced notice of proposed rulemaking that renames the rule, restructures current provisions, and includes language addressing other activities that are within the incidental powers of federal credit unions.

Entitled "Incidental Powers and Group Purchasing Activities," the advanced proposal is structured in four sections.

Section 1 lists the activities considered to be within the incidental powers of a federal credit union and the process for confirming whether an activity is permissible under incidental powers.

Section 2 authorizes group purchasing activities and clarifies "cost amount" compensation.

Section 3 describes insurance products, activities and compensation with respect to the sale of insurance products.

Section 4 stipulates the conflict of interest provision applicable to group purchasing activities, including insurance activities, and it defines applicable terms.

Share Insurance Proposal Issued

The NCUA Board is seeking comments, for 60 days, on a proposal to amend share insurance regulations concerning living trusts, joint revocable trusts, IRA accounts, public unit accounts, guardian accounts and applying local law to share insurance determinations.

Substantive changes were made earlier this year to NCUA's federal share insurance coverage. This proposal begins final steps to complete NCUA's comprehensive review and will ensure parity between NCUA and FDIC insurance programs.

Interim Truth in Savings Rule Adopted

The NCUA Board adopted an interim final *Truth in Savings* rule, effective immediately, allowing credit unions to electronically deliver periodic statement disclosures, with the member's consent.

The rule change is based on similar provisions recently adopted by the Federal Reserve Board. NCUA must promulgate *Truth in Savings* regulations substantially similar to those issued by the Federal Reserve Board.

Final Management Interlocks Amendment Adopted

The NCUA Board adopted a final amendment to the management interlocks rule that was drafted in coordination with fellow federal financial regulators and becomes effective January 1, 2000.

Based on statutory requirements in the *Depository Institution Management Interlocks Act*, the threshold when an official is prohibited from simultaneously serving as a manager in two depository organizations (or affiliates) was raised from \$1 billion to \$2.5 billion for one institution and from \$500 million to \$1.5 billion for the second.

NCUA will make future threshold adjustments in conjunction with fellow financial agencies based on changes in the Consumer Price Index.

The regulation also contains two new exemptions, a small market share exemption and a general exemption.

CUSO Rule Amended

The NCUA Board voted to amend Section 712.5 of the CUSO regulation by

reinstating real estate brokerage services as a permissible CUSO service.

The NCUA Board removed real estate brokerage services from the list of permissible CUSO services in early 1998 and later that same year issued an interim final rule allowing a grandfather exemption based on comments received objecting to the removal.

The Board continues to have concerns; however, commenters persuasively stated that this is an important customer service providing convenience and possible savings to members and sufficient safeguards exist to thwart potential conflicts.

Community Charter Requests

Great Basin Federal Credit Union, a \$52.2 million credit union in Reno, Nev., gained approval to convert from a multiple-group charter serving 9,600 members to a community charter able to serve the 313,750 residents of Washoe County, Nev. Great Basin FCU can now serve the people who live, work, worship, and attend school, and businesses and other legal entities in Washoe County.

Visions Federal Credit Union, Endicott, N.Y., gained approval to convert from a \$987.9 million multiple-group charter to a community charter able to serve the people who live, work, worship, attend school, businesses and other legal entities in Broome or Tioga counties in New York state. The two counties have a population of 264,497.

All votes are unanimous unless otherwise noted.



Dallas, Texas, Nov. 9, 1999, Board Member Dennis Dollar meets with credit union officials at an Open Forum he sponsored to solicit direct feedback on important issues within the credit union community.

**NATIONAL CREDIT UNION ADMINISTRATION
PUBLICATIONS LIST**

The publications listed below may be ordered by contacting the National Credit Union Administration, Office of Administration, 1775 Duke Street, Alexandria, VA 22314-3428. Telephone: (703) 518-6340. Base prices for each publication do not include all changes. Changes may be purchased at the prices indicated.

Prepayment is required. Payment by check, money order, Visa or Master Card is acceptable.

TITLE	PUBLICATION NO. ISSUE DATE	QTY	PRICE	TOTAL
Decal - Adhesive (7"x3")	1075 (11/86)		\$ 1.00/2	
Sign (7"x3") with stand	1076 (11/86)		\$ 1.00	
Annual Report of the National Credit Union Administration	8000 (1998)		\$ 3.50	
Federal Credit Union Bylaws	8001 (10/99)		\$ 3.50	
Federal Credit Union Handbook	8055 (1999)		\$ 3.50	
The Federal Credit Union Act	8002 (10/98)		\$ 3.00	
Federal Credit Unions (Leaflet)	8005 (5/96)		\$ 7.50/100	
NCUA Rules & Regulations	8006 (8/98)		\$ 15.00	
- Change 1	(12/98)		\$ 3.00	
- Change 2	(2/99)		\$ 5.00	
- Change 3	(9/99)		\$ 5.00	
Chartering and Field of Membership Manual	8007 (1/99)		\$ 6.50	
NCUA User's Guide (Financial Performance Report)	8008 (1998)		\$.50	
NCUA Examiner's Guide ¹	8018 (6/97)		\$ 85.50	
Accounting Manual for FCUs	8022 (1997)		\$ 35.00	
Your Insured Funds	8046 (6/99)		\$ 14.00/50	
Yearend Statistics for Federally Insured Credit Unions	8060 (12/98)		\$ 5.50	
Midyear Statistics for Federally Insured Credit Unions	8060 (6/99)		\$ 5.50	
NCUA Credit Union Directory	8602 (99)		\$ 15.00	
A Guide to HMDA Reporting	9003 (1/98)		\$ 5.00	
HMDA Notice Poster	3222P (6/97)		N/C	
Supervisory Committee Guide for Federal Credit Unions	8023 (5/97)		\$ 12.00	
Y2K Date Change (Leaflet)	8068 (8/98)		\$7.50/50	
The Year 2000 and Your Insured Shares (Brochures)	8069 (3/99)		100/ \$4.00	
Suspicious Activity Report Form (2 diskettes per order)				
*Windows & User's Guide Software	9004 (7/96)		\$ 10.00	
*DOS & User's Guide Software	9005 (7/96)		\$ 10.00	
*Windows Package & Documentation	9006 (7/96)		\$ 15.00	
*DOS Package & Documentation	9007 (7/96)		\$ 15.00	
Subscription to NCUA Publications ²	9001 (1/99 - 12/99)		\$125.00	
FFIEC Information Systems Manual	9002 (7/99 - 12/99)		\$ 62.50	
Vol 1&2	1996 Edition		\$50.00	

¹NCUA's Examiners' Guide is excluded from the Subscription Service.

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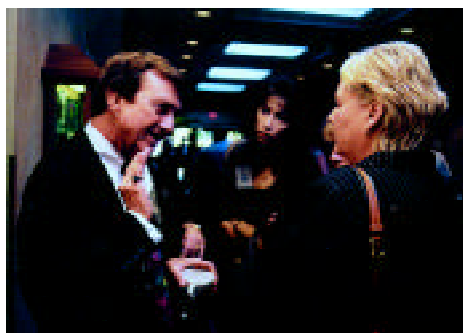
Empowerment II Workshop: A New Millennium of Strategies is Approaching

The National Credit Union Administration's successful series of regional Empowerment workshops during 1999 were headlined by bankruptcy guru Bill Mapother. The Albuquerque, N.M. and Miami, Fla., appearances were the first time Mapother presented his animated and interactive bankruptcy and collections clinic to a group of small credit unions.

The free two-day workshops drew a total audience of 350 managers and directors from small credit unions and low-income designated credit unions with assets ranging from \$500,000 to \$50 million.

Mapother, an attorney, author and former judge, told his audiences that "Most credit union members filing bank-

ruptcy would repay the loan if we could get the lawyers out of the way. Credit union members don't look at you the way they look at the bank or the finance company. Most of them sense the difference; they have a special feeling for you rather than the others. But the lawyers don't have a special feeling for you. That's the obstacle."



If you ever counsel a person out of financial problems you will have the most loyal member you ever had."



"The way to save your money is to have collateral."



"Very few homeowners who file bankruptcy give up their homes. They reaffirm homes, they reaffirm their car."





Member Education is Essential

As the Year 2000 weekend approaches, member education has never been more important. Credit unions must ensure their members are aware of the extensive efforts undertaken to assure Year 2000 readiness. Most credit unions have initiated effective Year 2000 communication programs during the past year, and during this final month credit unions must redouble efforts to communicate with their members.

Credit unions should be prepared to respond to member concerns created by media reports or other events, such as Y2K movies. Last month, a fictional, made-for-television movie about Year 2000 depicted tragic events. While it may seem unlikely that members would draw conclusions from fictional movies, there may be some members who develop concerns because of the movie.

Possible ATM Glitches

Make members aware that although minor disruptions may occur, their money is safe and will be available. Of particular importance are the nation's Automated Teller

Machine (ATM) networks. Although most financial institutions have not classified ATM machines as being "mission critical," for many people, ATMs have become the equivalent of the financial institution. It is essential that members do not interpret a malfunctioning ATM machine as an indication their credit union has a Year 2000 problem.

Although NCUA does not expect ATM networks to experience Year 2000 related problems, we are aware that every day, 1 - 2 % of the nation's ATM machines become inoperable for a short period of time. On average, one in ten transactions result in an error message. It is likely that the public and the media will look at ATM readiness as a "bellwether" of the overall readiness of the financial services industry. So, it is essential that normal disruptions are not misinterpreted as being Year 2000 related.

Credit union management should monitor and gauge their members' attitudes during this final month. Reassuring communications may be necessary if increased member concern over Year 2000 readiness is noted.

LARGE CU RESULTS

continued from page 1

- The ratio of delinquent loans to total loans declined from 0.72 to 0.61 percent.

Large credit union investments declined across the board as more funds flowed into loans. At least a portion of the significant 29.5 percent decline in corporate credit union deposits can be attributed to the reclassification of overnight accounts held in corporates to "cash equivalents." As a result, cash and cash equivalents doubled from \$6.3 to \$12.6 billion while investments declined \$7.5 billion in the third quarter.

During the first 9 months of 1999, investments in federal agency securities increased \$5.3 billion or 12.9 percent while investments in the more liquid U.S. Government Obligations decreased \$2.2 billion or 27 percent.

The total number of large federally insured credit unions over \$50 million declined from 1,452 to 1,448 in the third quarter of 1999 while the number substantially increased from the 1,342 on record a year ago. The number of members increased from 48.3 million a year ago to 51.5 million at the end of September 1999.

D'Amours and Wheat Address Latino Conference

Chairman Norman E. D'Amours and Board Member Yolanda Townsend Wheat both addressed the National Association of Community Development Credit Union's First Latino Credit Union Conference November 19-22, 1999, in San Antonio, Texas.

In his address to the group, Chairman D'Amours stressed the continuing responsibility for "credit unions to reach out to those not served by other financial institutions in order to make the American dream a reality for all citizens."

Mrs. Wheat's keynote address focused on the challenges and opportunities for U.S. credit unions in expanding service to the fast-growing Latino population. "Credit unions give members the opportunity to generate income, to provide a financial cushion for lean times, to give subsequent generations a "head start," and, in doing so, the credit union and the member create a stake in the community," Wheat told the audience. Your credit unions also have the chal-

lenge of making sure that cultural and language differences are not allowed to serve as a barrier to access to financial service."



NFCDU Vice Chair Rita Haynes congratulates Board Member Yolanda Townsend Wheat following Wheat's keynote address at the First Latino Credit Union Conference.

Major 1999 Legislation Affecting Credit Unions

In 1999, the first session of the 106th Congress ratified and President Clinton signed the following legislation affecting NCUA and credit unions.

Financial Modernization

November 12, President Bill Clinton signed the comprehensive financial modernization bill, which allows the banking, insurance and securities industries to provide many of the same services.

Financial Privacy: Bill provisions require NCUA to write regulations that restrict sharing customer information to ensure the security and confidentiality of members' records and information. In general, a financial institution may not disclose "nonpublic personal information" to a nonaffiliated third party unless the customer has been notified they have can opt out of having their information shared.

Rules are due six months after the President signs the bill.

ATM Fee Disclosures: Requires financial institutions to inform non-account holding consumers of ATM surcharges on the ATM screen or by print-out before a transaction is processed.

Insurance and Securities: Financial institutions that engage in insurance and securities sales will be subject to additional consumer protection regulations to ensure that consumers understand these products are not covered by federal deposit insurance.

Microenterprise Assistance: Establishes a new program within the Small Business Administration, "Program for Investment in Microentrepreneurs Act of 1999" (PRIME). The PRIME program allows "qualified organizations" to apply for grants to provide technical assistance to low-income individuals who wish to start their own businesses. Qualified organizations are those that have a demonstrated record of assisting disadvantaged entrepreneurs.

Online Banking Study: Banking agencies other than NCUA must review their regulations regarding financial services delivery and recommend within two years how these requirements might be adapted to ebanking transactions.

VA HUD Appropriations

\$1 million was added to the Community Development Revolving Loan Program bringing the total loan program to \$11 million. Community development credit unions can borrow up to \$300,000 of these funds to accomplish specific goals in their communities.

CLF Ceiling Raised

Congress enacted legislation in mid-1999 temporarily raising the Central Liquidity Facility borrowing authority from \$600 million to approximately \$21 billion to ensure funds are available to cover any increased liquidity needs that may arise as a result of Y2K.



Alex., Va., Nov. 4, 1999, The NCUA Board members and executive director welcome a delegation of Congressmen and Senators from the Philippines to NCUA. The delegation spent two days meeting with agency officials to gain in-depth knowledge of NCUA supervision and insurance operations. On Nov. 5, the delegation visited Manassas, Va., based Synergy One FCU to learn about the credit union's technology and automation systems.

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